RAMARRO Resources Inc.

1997 ANNUAL REPORT

The cover image shows the constellation Orion, the hunter. This symbolizes Ramarro's exploration activities, the most significant being the discovery of gas at Orion, B.C.

CORPORATE Highlights

	1997	1996 RESTATED
Operations		
Natural gas production (mmcf)		
Total	823.9	740.0
Daily average	2.43	2.02
Average natural gas price ($/mcf)	1.78	1.39
Total crude oil sales (bbls)	10,863	6,889
Average crude oil price ($/bbl)	21.79	20.56
Total boe/d	290	221
Natural gas reserves (bcf)	10.69	8.98
Crude oil reserves (mbbls)	249	67
Financial		
Revenue	$ 2,338,131	$ 1,734,389
Funds from operations	$ 959,232	$ 552,806
Per share	$ 0.080	$ 0.049
Net earnings	$ 242,809	$ 60,700
Per share	$ 0.020	$ 0.005
Convertible debentures	$ 330,000	$ 450,990
Shareholders' equity	$ 3,813,657	$ 2,709,646
Common shares outstanding		
At year end	16,165,173	10,976,633
Weighted average	11,913,128	11,095,133
Share Performance ($)		
High	0.35	0.18
Low	0.15	0.10
Close	0.28	0.15
Volume	1,596,652	746,550

STRATEGIES and Highlights

Ramarro has exciting exploration prospects, sound development projects and a strong financial position including no bank debt.

- Daily net production increased 31 percent to 290 boe and subsequent to year end increased to 300 boe.

- Cash flow increased 73 percent to $959,232 ($0.08/share) while earnings rose 400 percent to $242,809 ($0.02/share). The Company exited fiscal 1997 with no bank debt and a $1.0 million line of credit.

- The Company operates 90 percent of its 388 producing wells and, in the past, specialized in shallow gas operations where long-life reserves typically in excess of 20 years provide a stable source of production and cash flow.

- A key growth strategy is to diversify the asset base through corporate and property acquisitions. In 1997, Ramarro merged with a long-time industry partner, Ripple Resources Ltd., adding production, reserves and excellent development opportunities in a new area of activity at Oak in northeastern British Columbia.

- Exploration is another growth strategy which took on greater importance in 1997 with drilling of a wildcat natural gas discovery at Orion in northeastern B.C. This Panoil-Ramarro well was suspended due to spring break-up, but drilling is scheduled to resume in January 1998. Initial results indicate the well will have a major impact on Ramarro's production and reserves. A second exploration well will also be drilled in January 1998 on nearby lands which could extend the Orion play.

- By operating 90 percent of production, Ramarro maintains control over costs, technology and development. In addition, the Company receives significant fees from its partners to maintain a highly qualified in-house staff experienced in all aspects of the oil and gas industry.

A natural gas discovery at Orion, B.C. has the potential to move Ramarro to a company of much greater size.

PRESIDENT'S Message

Ramarro exited fiscal 1997 having made considerable progress on all fronts. The Company's financial position was excellent including a 73 percent rise in cash flow, a four-fold increase in earnings and no bank debt. Daily net production increased 31 percent to 290 boe, primarily from a merger with a long-term industry partner. The greatest excitement, however, was a wildcat exploration well drilled in northeastern British Columbia. While the discovery is still under evaluation, it has the potential to not only substantially increase production, but move Ramarro to a company of much greater magnitude. The events of the past year have laid the groundwork for one of management's prime objectives: generating greater value for its shareholders.

Effective May 21, 1997, Ramarro merged with Ripple Resources Ltd., a company which had been a joint venture partner since 1985 and whose principal asset was a producing oil and gas property at Oak, B.C. With Ripple operating as a wholly-owned subsidiary, the immediate impact was to increase daily net production by 55 boe and add 157,000 boe to Ramarro's reserve base. The merger also positioned Ramarro with large land holdings in a new area with excellent development potential, and improved the Company's ratio of oil in its production mix. With a longer term view, the merger was completed through a share exchange and the resulting issue of 2,358,700 Ramarro common shares broadened the shareholder base to include a group of investors with a long-term business association with Ramarro.

Development projects continued to focus on Cessford North, Alberta where a Ramarro-operated drilling program added 700 mcf/d (net 280 mcf/d). The wells were completed in October 1997 and production increases will be reflected in our first quarter results.

Exploration made exciting progress in 1997 with a discovery well in the Orion area of B.C. which flowed significant natural gas under test. The prospect has the potential to double Ramarro's gas production and significantly increase reserves and cash flow. Drilling was suspended in March 1997 due to spring break-up but will resume in January 1998. Ramarro has a 20 percent interest in the well and large land holdings in the area.

On the financial side, Ramarro finished the year in excellent condition. Cash flow improved 73 percent to $959,232 ($0.08/share) and earnings were up 400 percent to $242,809 ($0.02/share). To improve the balance sheet, and in a vote of confidence for the Company, all holders of long-term convertible preferred shares and convertible debentures converted to common shares in

advance of the January 1998 deadline. Subsequent to year end, the Company re-established its normal course issuer bid to repurchase up to 650,000 common shares. This move is being undertaken to stabilize the trading price of the shares. When combined with our 1997 results and our winter exploration activities, we hope to see improved market potential for Ramarro shares.

As we look to the coming year, Ramarro is positioned with very little downside and considerable upside. The average natural gas price is expected to remain fairly stable during fiscal 1998 and, while indications are for volatile oil prices, the Company's low ratio of oil production will limit any financial impact. The Company has a stable base of production, and a diversified portfolio of properties with long-life reserves. Cash flow from these properties will enable Ramarro to fund an active exploration and development program in 1998. With the production increases just after the September 30, 1997 year end, Ramarro reached 300 net boe/d, and the Company is targeting 500 boe/d in the next two years.

Growth areas for natural gas include Cessford, Alberta and Oak, B.C. where development projects are expected to add net volumes of 500 mcf/d in fiscal 1998. Oil production at Oak is expected to double following commencement of a waterflood in February 1998, and additional increases are projected from a waterflood planned for Webb, Saskatchewan. Further substantial upside is expected as we await further results from the Orion discovery well and a second exploration well to be drilled in the area in January 1998.

Following the merger with Ripple Resources Ltd., we are pleased to welcome Antony Edgington to the Board of Directors. His many years of business and engineering experience, which include being president of both Ripple Resources Ltd. and Sproule Associates Limited, will be valuable assets. On behalf of the Directors, I wish to thank our employees for their enthusiasm and efforts. Their dedication continues to be an integral part of Ramarro's operations and growth.

On behalf of the Board of Directors

Wayne Sharp
President
January 16, 1998

OPERATIONS Review

Ramarro's operations are based in the three western provinces where it participates in 388 producing wells, 90 percent operated by Ramarro. The Company is operator/manager for eight properties under Ramarro-sponsored arrangements similar to drilling funds, while other properties include only industry partners. By acting as operator/manager, Ramarro is able to control costs, technology, development and marketing. This also allows the Company to generate revenue from fees charged to its partners which partially cover the cost of maintaining a highly competent in-house staff experienced in all facets of the industry.

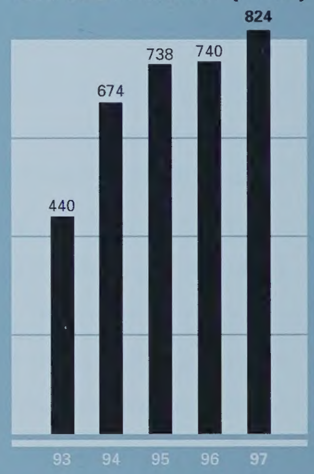
Production and Drilling

Net daily production increased 31 percent to 290 boe from 221 boe in fiscal 1996. Natural gas production averaged 2,426 net mcf/d. An additional 280 net mcf/d was brought onstream in October 1997 with a further net increase of 500 mcf/d scheduled to be onstream in fiscal 1998. In fiscal 1998, Ramarro is projecting natural gas production to average 3,000 net mcf/d. The average sales price in fiscal 1997 was $1.78/mcf, up 28 percent from $1.39 in 1996. A major portion of the price increase was due to marketing activities in fiscal 1996 which eliminated excess transportation and resulted in a new contract with a major aggregator.

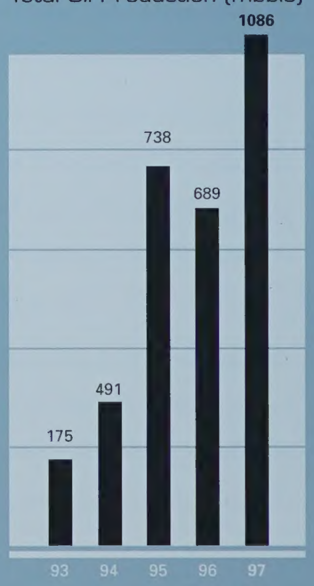
Daily net oil production averaged 53 bbls in fiscal 1997. Ramarro's average oil price was $21.79 compared to $20.56 in fiscal 1996.

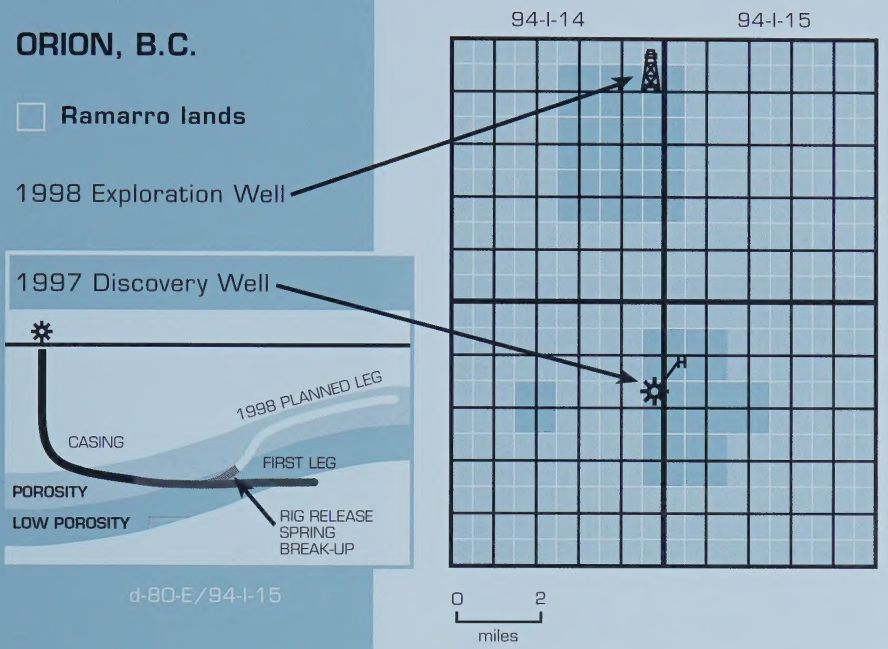
In fiscal 1997, Ramarro participated in 11 wells (4.2 net), of which 10 were operated by the Company. The overall success rate was 100 percent. In fiscal 1998, Ramarro expects to increase its drilling activity by 20 percent.

Total Gas Production (mmcf)



Total Oil Production (mbbls)





Exploration

The most significant exploration thrust was at Orion, B.C. where a discovery well tested significant gas flows. Ramarro has a 20 percent interest in the horizontal well which was drilled in March 1997 to test the Jean Marie formation at a vertical depth of 1,400 meters. The Panoil-Ramarro Orion well tested a significant gas flow from a short horizontal section during under-balanced drilling. The arrival of spring break-up forced suspension of the well, however, drilling will resume in January 1998. In addition to the re-entry, Ramarro will participate for 20 percent in drilling of a Slave Point test on a nearby land block.

The Ripple merger provided Ramarro with varying interests in 8,320 acres of land in the Oak Area of B.C. Prior to year end, the first of three wells was drilled to test the Cadomin zone. To date, all of the wells have been completed as successful gas wells and are awaiting flow tests and pipeline connections. Ramarro's interest in these wells varies from 3.95 percent to 25.5 percent.

Two other properties may be enhanced through the exploration activities of owners of adjacent lands. Drilling took place on offsetting lands in the Creelman area of Saskatchewan and seismic activity was completed in the Vilna area of northeastern Alberta. Ramarro is awaiting results before deciding on further development plans.

Principal Properties

Saskatchewan

Webb

Production increases are expected at Webb in 1998 as discussions are underway to unitize and waterflood this Ramarro-operated oil project. Based on an offset waterflood with an eight year history, Ramarro's share of production is projected to double to 45 bbls/d. Ramarro's average working interest is 55.6 percent. In addition, a new pool discovery on offsetting lands may extend onto Ramarro holdings. Depending on performance of the new waterflood, three additional wells may be drilled in late 1998. Recoverable reserves at Webb are estimated at 124 mbbls (net 68 mbbls).

Hatton

Ramarro operates 16 of 21 wells in the Hatton shallow gas project in southwestern Saskatchewan. Current production capacity is 1,445 mcf/d from wells with a life expectancy in excess of 20 years. Ramarro's average working interest is 21.3 percent and volumes are under a long-term gas contract signed in November 1996. While the property has been fully developed including rationalization of facilities, proven recoverable reserves total 5.21 bcf (net 1.04 bcf).

Alberta

Cessford West

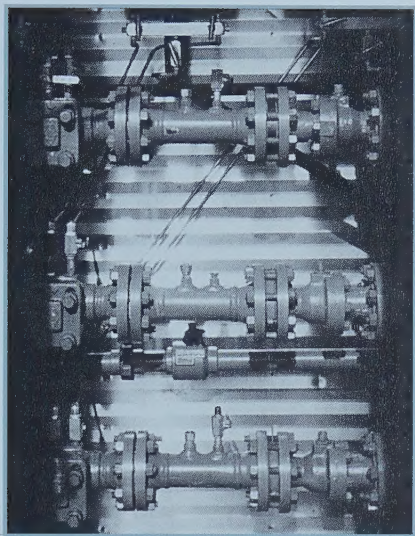
At Ramarro-operated Cessford West, the Company holds a 25 per cent working interest in 45 producing shallow gas wells. Productive capacity totals 1,500 mcf/d, while daily contract volumes averaged 1,465 mcf/d in 1997. The property has a long reserve life exceeding 20 years and proven producing reserves total 5.72 bcf (net 1.43 bcf). Development plans are focused on field optimization.

Cessford North

Cessford North is Ramarro's most active development area which saw production increases through infill drilling and encouraging results from step-out wells to extend the play. Ramarro operates 40 producing gas wells at interests ranging from 20-40 percent, plus an additional 20 percent interest through its share ownership in Texada Energy Ltd., which owns the balance of the working interest. In August 1997, Ramarro drilled 10 wells which came on production in October 1997 adding 700 mcf/d (net 280 mcf/d). Ramarro plans to drill 12 more wells annually over the next three years. In 1998, net production increases are targeted at 280 mcf/d.

Properties have long-life reserves, stable production and good upside potential.

Production increases at Cessford North resulted from active development including new facilities.



Hilda

Ramarro operates 158 producing shallow gas wells at interests ranging from 50 – 53 percent. Production rates are relatively low, however, the area's productive capacity totals 2,250 mcf/d. While the project is in the mature stage of development, field optimization is underway to improve the overall economics of the property.

British Columbia

Oak

Ramarro expanded into northeastern British Columbia in 1997 and acquired interests in an oil and gas property at Oak through a merger with Ripple Resources Ltd. The merger added 55 net boe/d and net reserves of 157,000 boe. Ramarro acquired interests ranging from 4-25 percent in four producing gas wells and 15 producing oil wells. An additional three gas wells are scheduled to go onstream in December 1997 adding 2,000 mcf/d (net 220 mcf/d). Gross oil production is expected to at least double to 425 bbls/d following completion of a waterflood in February 1998. Ramarro's interest in the waterflood is 4.0 percent.

Reserves and Related Value

As of October 1, 1997 Ramarro's in-house evaluation of its reserves included 10.69 bcf of natural gas valued at $4.03 million and 249 mbbls of oil valued at $1.99 million, both pre-tax using a 15 percent discount factor.

Proven Producing and Undeveloped Recoverable Oil and Gas Reserves as of October 1, 1997

	Gross Reserves*		Present Worth ($000's)				Cash Flow ($000)	
	Oil (mbbls)	Gas (bcf)	Undis-counted	10%	15%	20%	1998	Five Years
Cessford Area	–	6.75	9,855	4,114	2,897	2,127	422	3,158
Hatton	–	1.04	882	496	404	341	80	353
Hilda	–	2.54	782	634	581	538	191	626
Oak	181	0.18	4,463	2,217	1,724	1,402	250	1,433
Other	68	0.18	757	494	418	365	103	411
Total	249	10.69	16,739	7,955	6,024	4,773	1,046	5,981

*BEFORE ROYALTIES

Pricing assumptions used for this evaluation are summarized in the following table.

	Base Natural Gas Price ($/mcf)	Base Oil Price ($/bbl)
1997 (Q4 only)	2.30	24.00
1998	1.85	24.25
1999	1.90	25.00
2000	2.00	26.00
2001	2.15	27.00

ESCALATED AT 5% PER YEAR THEREAFTER

Net Asset Value

Proved reserves at October 1, 1997 (discounted at 15% pretax)	$ 6,024,000
Undeveloped land	250,000
Balance sheet adjustments (as at September 30, 1997)	
Working capital	(598,384)
Less: Convertible debentures	(330,000)
Net Asset Value Before Investments	$ 5,345,616
Investment in Texada	876,341
Net Asset Value	6,221,957
Per Share*	$ 0.385

* BASED ON 16,165,173 COMMON SHARES OUTSTANDING AT SEPTEMBER 30, 1997
COMPANY TAX POOLS TOTALLING $3,335,000.00 HAVE NOT BEEN INCLUDED IN THIS EVALUATION.

The Ripple merger added significant reserves, land and drilling prospects.

Earnings rose 400 percent reflecting higher volumes and product prices.

MANAGEMENT'S Discussion and Analysis

Revenue

Revenue increased 35 percent to $2.3 million primarily due to improved product prices and higher sales volumes. Gas sales totalled 824 mmcf, up 11 percent from the 740.0 mmcf sold last year. The average gas price improved to $1.78 from $1.39/mcf. Crude oil and natural gas liquids sales were 10,863 bbls (average $21.79/bbl) compared to 6,889 bbls sold last year at an average price of $20.56. Hilda and Cessford North showed good production gains over last year and more than offset production declines, primarily at Cessford West and in Saskatchewan. After royalties, production revenue accounted for almost 80 percent of the total revenue increase. The acquisition of Ripple Resources Ltd., effective May 21, 1997, contributed about $103,000 to revenues at a time in the operating year when natural gas prices and demand were weaker. Most of the improved liquids volumes were from Oak, B.C. which was acquired in the Ripple merger, however, the Company's Webb project did show modest gains over the previous year. Other categories of revenue, with the exception of interest income, were also ahead of amounts reported last year.

Operating Costs

Operating expenses totalled $667,929, a 19.5 percent increase over $558,989 for the previous year. With a 31 percent increase in production, operating costs per boe averaged $6.33, down from the $6.93 average in 1996. Netbacks from most of the Saskatchewan gas properties improved by selling gas to another producer at the field gate for a price indexed to the prevailing price at Empress. The Richmound North project was included in the arrangement from late October 1996 and the Richmound field began to participate during the summer of 1997.

Administration Costs

Most categories of administration expense were at a level similar to the previous year except for Ramarro's share of professional fees and corporate costs related to the acquisition of Ripple Resources Ltd. As a result, administration costs of $633,525 were $54,682 higher than last year. Since the Company's inception, Ramarro has not capitalized any administration expenses.

Interest and Bank Charges

The year to year change in interest and bank charges from $50,325 to $79,529 resulted from the issue of new, convertible Ramarro debentures that replaced a similar number of Ripple Resources debentures which were redeemed following the acquisition. The new debentures pay interest at an annual rate of nine percent, compared to 12 percent for the old Ripple securities. At the end of the fiscal year, all other Ramarro debentures and preferred shares were converted into common shares of the Company. In the coming year, only the new nine percent debentures will be outstanding with an annual interest obligation of $29,700. Total interest costs for 1998 will depend on the amount of short-term borrowing required to carry operations though the monthly revenue cycle. Some temporary borrowing is required each month until the previous month's revenue is received which occurs about the 25th of the month following the month of production.

Depletion and Depreciation

Non-cash charges for depletion and depreciation increased $129,478 to $542,945 due almost entirely to higher sales volumes and to the greater value of depreciable assets. To some extent, these factors were offset by a higher level of recoverable reserves over which the net book value of assets are depleted on the unit-of-production basis. The depletion rate for the year was $3.73/boe, down slightly from $3.76 in 1996. Depreciable assets increased year to year due to new additions primarily at Cessford North and from the Ripple acquisition.

The cost recorded for future site restorations declined from $62,684 to $45,496 due in part to the higher recoverable reserves mentioned above.

Income Taxes

Income tax expense including Alberta Royalty Tax Credits increased to $125,898 from $9,381 in fiscal 1996. This increase was affected by the reversal in 1996 of deferred income taxes recorded in 1995 on the capital gain on the sale of transportation rights. A significant portion of this gain was not included in taxable income until fiscal 1996 at which time the 1995 deferred tax expense was reversed.

The increase in Alberta Royalty Tax Credit from $6,574 to $22,778 resulted from improved natural gas pricing and additional eligible production at Cessford North.

Other

The Company's auditor, Gordon K. Case, resigned his position in June, 1997 in order to pursue other business ventures. We wish to thank Mr. Case for his service and counsel since the inception of Ramarro. The Board of Directors has appointed the firm of KPMG, Chartered Accountants, to report on the annual financial statements.

MANAGEMENT'S Report

The accompanying consolidated financial statements of Ramarro Resources Inc. were prepared by management in accordance with accounting principles generally accepted in Canada. Financial information presented throughout the Annual Report is consistent with that shown in the financial statements.

Management is responsible for the integrity of the financial statements. Financial statements generally include estimates that are necessary when transactions affecting the current account period cannot be finalized with certainty until future periods. Based on careful judgments by management, such estimates have been properly reflected in the accompanying consolidated financial statements. Systems of internal control are designed and maintained by management to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial purposes.

The external auditors conducted an independent examination of corporate and accounting records in accordance with generally accepted auditing standards to express their opinion on the financial statements. Their examination included a review and evaluation of Ramarro's system of internal control and included such tests and procedures as they considered necessary to provide reasonable assurance that the financial statements are presented fairly.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee of the Board. This Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review financial statements before they are presented to the Board of Directors for approval.

Wayne Sharp
President

G. Donald Meades

G. Donald Meades
Vice President Finance

AUDITORS' Report

To the Shareholders of Ramarro Resources Inc.

We have audited the consolidated balance sheet of Ramarro Resources Inc. (the "Corporation") as at September 30, 1997 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at September 30, 1997, and the results of its operations and the changes in its financial position for the year ended September 30, 1997 in accordance with generally accepted accounting principles in Canada.

The prior year's consolidated balance sheet as at September 30, 1996 and consolidated statements of income and retained earnings and changes in financial position for the year ended September 30, 1996 were reported on by another firm of Chartered Accountants who issued an unqualified opinion in their report dated December 6, 1996.

KPMG

KPMG
Chartered Accountants
Calgary, Alberta
December 19, 1997

CONSOLIDATED Balance Sheet

		AS AT SEPTEMBER 30 1997		1996 (RESTATED NOTE 1)
Assets				
Current				
Cash	$	182,758	$	255,500
Accounts receivable (Note 5)		1,007,509		732,606
		1,190,267		988,106
Petroleum and Natural Gas Properties (Note 2 and 5)		5,014,345		2,933,823
Investment (Note 3)		436,571		472,057
	$	6,641,183	$	4,393,986
Liabilities				
Current				
Accounts payable	$	1,788,651	$	736,429
Convertible Debentures (Note 6)		330,000		450,990
Provisions for Future Site Restoration		206,447		143,169
Deferred Income Taxes		502,428		353,752
		2,827,526		1,684,340
Shareholders' Equity				
Preference Shares (Note 7)		–		96,978
Common Shares (Note 7)		2,155,400		1,190,432
Retained Earnings		1,658,257		1,422,236
		3,813,657		2,709,646
	$	6,641,183	$	4,393,986

Contingency (Note 10)

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED Statement of Earnings and Retained Earnings

	YEAR ENDED SEPTEMBER 30 1997	1996 (RESTATED NOTE 1)
Revenue	$ 2,338,131	$ 1,734,389
Expenses		
Operating	667,929	558,989
Administration	633,525	578,843
Interest and bank charges	79,529	50,325
Depletion and depreciation	542,945	413,467
Future site restorations	45,496	62,684
	1,969,424	1,664,308
Earnings Before Income Taxes	368,707	70,081
Income Taxes (Note 9)		
Deferred	148,676	15,955
Alberta royalty tax credit	(22,778)	(6,574)
	125,898	9,381
Net Earnings	242,809	60,700
Retained Earnings, Beginning of Year	1,422,236	1,370,284
Preference Dividends	(6,788)	(8,748)
Retained Earnings at End of Year	$ 1,658,257	$ 1,422,236
Earnings Per Share		
Basic	$ 0.020	$ 0.005
Adjusted basic	$ 0.018	$ 0.006
Fully diluted	$ 0.019	$ 0.006

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED Statement of Changes in Financial Position

	YEAR ENDED SEPTEMBER 30 **1997**	1996 (RESTATED NOTE 1)
Cash Provided by (Used in) Operations		
Net earnings	**$ 242,809**	$ 60,700
Depletion, depreciation and other net items not involving cash	**716,423**	492,106
	959,232	552,806
Investment		
Petroleum and natural gas properties	**(1,526,490)**	(720,771)
Changes in other working capital items – net	**712,472**	569,546
Acquisition of Ripple Resources Ltd.	**(400,000)**	–
Income tax effect of renounced tax deductions not involving cash	**56,180**	–
Change in investments	**–**	(177,217)
	(1,157,838)	(328,442)
	(198,606)	224,364
Financing		
Conversion of preferred shares	**(96,978)**	(56,000)
Conversion of convertible debentures	**(450,990)**	56,000
Common shares issued	**964,963**	–
Repayment of bank loan	**(274,348)**	–
Repurchase of common shares	**–**	(42,325)
Preferred dividends	**(6,788)**	(8,748)
Redemption of Ripple debentures	**(340,000)**	–
Issuance of convertible debentures	**330,000**	–
	125,864	(51,073)
Increase (Decrease) In Cash	**(72,742)**	173,291
Cash at Beginning of Year	**255,500**	82,209
Cash at End of Year	**$ 182,758**	$ 255,500
Analysis of Other Working Capital Items		
Accounts receivable	**$ (274,903)**	$ 899,056
Accounts payable	**1,052,222**	(389,965)
Ripple working capital deficit	**(64,847)**	–
Income taxes recoverable	**–**	60,455
	$ 712,472	$ 569,546

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES to Consolidated Financial Statements

1. Accounting Policies

a) Petroleum and Natural Gas Properties

The Company follows the full cost method of accounting for petroleum and natural gas properties whereby all costs of exploring for and developing petroleum and natural gas properties and related reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses and costs of drilling and completion of both productive and non-productive wells. Proceeds from the disposition of properties are normally deducted from the full cost pool without recognition of gain or loss. When a significant portion of the property is sold, a gain or loss is recorded in the statement of earnings.

b) Depreciation and Depletion

Depreciation of lease and well equipment is computed on a straight line basis at a rate of 10 percent per annum. Depletion of the Company's interest in petroleum and natural gas properties is computed by the unit-of-production method based on estimates of proven recoverable reserves.

c) Joint Ventures

All of the Company's activities are carried on jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

d) Future Site Restorations

Estimated future site restoration costs are provided for using the unit-of-production method based upon estimated proven reserves. Costs are estimated by the Company based upon current regulations, costs, technology and industry standards. Removal and site restoration expenditures will be charged to the accumulated provision as incurred.

e) Investments

The Company follows the equity method of accounting for its investments in non-controlled corporations whereby an investment is initially recorded at cost with the carrying value adjusted thereafter for the Company's pro-rata share of earnings in the non-controlled corporation. Where an investment includes the purchase of flow through shares, the cost of the investment is reduced by the income tax effect of the renounced tax deductions.

f) Measurement Uncertainty

The amounts recorded for depletion and depreciation of capital assets and the provision for future abandonment and site restoration costs are based on estimates. The ceiling test is based on such factors as estimated proven reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

g) Restatement

Certain prior year amounts have been restated to conform with the presentation adopted in the current year.

2. Petroleum and Natural Gas Properties

The Company's investment in petroleum and natural gas properties is comprised of the following categories and costs:

	1997		
	Cost	Accumulated Depletion and Depreciation	Net
Petroleum and natural gas properties	**$ 5,895,430**	**$ 1,922,654**	**$ 3,972,776**
Lease and well equipment	**1,734,513**	**692,944**	**1,041,569**
	$ 7,629,943	**$ 2,615,598**	**$ 5,014,345**

	1996		
	Cost	Accumulated Depletion and Depreciation	Net
Petroleum and natural gas properties	$ 3,896,898	$ 1,529,418	$ 2,367,480
Lease and well equipment	1,109,578	543,235	566,343
	$ 5,006,476	$ 2,072,653	$ 2,933,823

3. Investments

The Company's investment in Texada Energy Ltd. is summarized in the following table:

	Number of Common Shares	Amount	Convertible Debentures
Balance, September 30, 1995	504,000	$ 231,840	$ 63,000
Purchased during year	208,000	114,817	62,400
Balance, September 30, 1996	712,000	$ 346,657	$ 125,400
Redeemed during year	–	–	(125,400)
Purchased during year	125,400	125,400	–
Income tax effect of renounced tax deductions	–	(56,180)	–
Equity in income	–	20,694	–
Balance, September 30, 1997	**837,400**	**$ 436,571**	**$ –**

The Company has invested a total of $753,400 in flow through shares of Texada Energy Ltd., the cost of which has been reduced by the income tax effect of the renounced tax deductions. At September 30, 1997 the Company held 837,400 common shares representing 34.3 percent of the 2,442,550 common shares outstanding.

4. Acquisition of Ripple Resources Ltd.

Effective May 21, 1997 the Company purchased all the issued and outstanding common shares of Ripple Resources Ltd. (Ripple) for consideration of $400,000 in common shares and accounted for the purchase using the purchase method. The Company's consolidated statements of earnings and changes in financial position include operating results of Ripple since the purchase date. The purchase price was allocated to net assets acquired based on their estimated fair values.

Property, plant and equipment	$	1,106,070
Working capital deficit		(64,847)
Future site restoration liability		(26,875)
Convertible debentures		(340,000)
Bank debt		(274,348)
Net assets acquired	$	400,000

5. Bank Loan

The Company has arranged a line of credit with a Canadian Chartered bank in the amount of $1,000,000. Any borrowing will bear interest at the Lender's prime rate plus 0.75 percent and will be secured by an assignment of certain of the Company's natural gas properties, an assignment of book debts and a floating charge debenture.

6. Convertible Debentures

The convertible debentures outstanding at September 30, 1996 bore interest at a rate of 10 percent and were to mature on January 31, 1998. These debentures were converted during the year into 2,254,950 common shares of the Company at a price of $0.20 per share.

The convertible debentures outstanding at September 30, 1997 bear interest at a rate of nine percent and mature on January 31, 2002. Each debenture may be redeemed at par in whole or in part, at the option of the Company after May 31, 1999. Debentures may be converted into common shares of the Company at prices varying between $0.30 and $0.50 per share until maturity

7. Capital Stock

Authorized:

The Company's capital consists of an unlimited number of Common voting shares and an unlimited number of Class A and B Preferred non-voting shares issuable in series.

Issued:

	Preferred Shares			Common Shares	
	Number of Shares		Share Capital	Number of Shares	Share Capital
Balance, September 30, 1995	152,978	$	152,978	11,255,133	$1,232,757
Conversion to debentures	(56,000)		(56,000)	–	–
Repurchase under normal course bid	–	$	–	(278,500)	(42,325)
Balance, September 30, 1996	96,978	$	96,978	10,976,633	$1,190,432
Issued for cash under stock option plan	–		–	90,000	17,000
Acquisition of Ripple Resources Ltd.	–		–	2,358,700	400,000
Conversion of debentures and preferred shares	(96,978)		(96,978)	2,739,840	547,968
Balance, September 30, 1997	**–**	**$**	**–**	**16,165,173**	**$2,155,400**

The Convertible Class B preferred shares outstanding at September 30, 1996 were entitled to a fixed annual cumulative dividend of seven percent and were converted into 484,890 common shares of the Company at a price of $0.20 per share.

Management has established a plan for granting stock options to the directors, management and employees of the Corporation. At September 30, 1997, options covering 1,105,000 shares at prices ranging from $0.10 to $0.20 per share were outstanding which, if not exercised, will expire at various dates during the next four years. A total of 495,000 warrants, each to purchase a common share at $0.34 , expire on May 31, 1998.

8. Related Parties

In the year to September 30, 1997, the Company paid $156,000 under a Management Services and Joint Participation Agreement to a company controlled by officers of the Company.

9. Income Tax

Income tax expense differs from the amount which would be obtained by applying the basic Canadian federal tax rates to the respective years' income before income taxes. The following table outlines the differences:

		1997		1996
Expected income tax expense at 44.8 percent	$	165,181	$	31,396
Crown royalties net of related credits		26,367		4,016
Resource allowance		(100,352)		(52,811)
Depletion on assets with no related tax base		31,596		35,053
Equity in non-taxable income of Texada Energy Ltd.		(9,271)		–
Other items – net		12,377		(8,273)
Provision for income taxes	$	125,898	$	9,381

The Company has approximately $3,335,000 of tax pools remaining to be written off against future years taxable income.

10. Contingency

The Company is a co-defendant in a legal action concerning sales commissions that would have been paid under a gas sales contract that terminated in May 1995, by mutual consent between the Company and the purchaser. The amount of damages claimed by the plaintiff is material to the Company; however, on the advice of its legal counsel, management believes the claim is without merit and has made no provision for the amount claimed.

FIVE-YEAR Review

	YEAR ENDED SEPTEMBER 30				
	1997	**1996**	**1995**	**1994**	**1993**
		RESTATED			
Financial (ALL AMOUNTS IN $ EXCEPT OUTSTANDING SHARES)					
Revenue	**2,338,131**	1,734,389	1,863,660	2,013,160	2,479,624
Expenses					
Operating	**667,929**	558,989	458,155	431,971	357,062
Administration	**633,525**	578,843	541,241	504,035	503,752
Interest and bank charges	**79,529**	50,325	45,128	51,255	45,756
Depletion and depreciation	**542,945**	413,467	401,389	397,834	247,702
Future site restorations	**45,496**	62,684	47,165	48,120	16,660
	1,969,424	1,664,308	1,493,078	1,433,215	1,170,932
Earnings Before Income Taxes	**368,707**	70,081	370,582	579,945	1,308,692
Income Taxes	**125,898**	9,381	141,674	221,461	587,615
Net Earnings	**242,809**	60,700	228,908	358,484	721,077
Earnings Per Share					
Basic	**0.020**	0.005	0.019	0.034	0.077
Fully diluted	**0.019**	0.006	0.017	0.028	0.061
Cash Generated From					
Operations	**959,232**	552,806	853,351	1,000,536	1,015,469
Per share	**0.080**	0.049	0.073	0.097	0.110
Shareholders' Equity	**3,813,657**	2,709,646	2,756,019	2,523,179	1,804,910
Shares Outstanding					
Preferred	**–**	96,978	152,978	152,978	313,238
Common – at year end	**16,165,173**	10,976,633	11,255,133	10,889,633	9,754,980
– weighted average	**11,913,128**	11,095,133	11,278,800	10,190,395	9,045,589
Operations					
Total natural gas (mmcf)	**823.9**	740.0	738.1	674.4	440.2
Mcf/d	**2,430**	2,022	2,022	1,848	1,206
Average $/mcf	**1.78**	1.392	1.210	1.932	1.584
Total crude oil (bbls)	**10,863**	6,889	7,730	4,908	1,753
Average $/bbl	**21.79**	20.56	19.58	17.40	16.28

CORPORATE Information

Directors

Trevor F. Cuthill*
Calgary, Alberta

Antony N. Edgington
Calgary, Alberta

Garth M. Farr*
Calgary, Alberta

G. Donald Meades
Calgary, Alberta

Deane G. H. Ross
Calgary, Alberta

Wayne R. Sharp*
Calgary, Alberta

* Member of Audit Committee

Officers

Wayne R. Sharp
President

Deane G. H. Ross
Vice President, Exploration

G. Donald Meades
Vice President, Finance

Head Office

Suite 1000, 808 – 4th Avenue SW
Calgary, Alberta T2P 3E8
Telephone 403-237-9393
Facsimile 403-237-9388
Email: ramarro@cybersurf.net

Transfer Agent

Montreal Trust Company
600, 530 – 8th Avenue SW
Calgary, Alberta T2P 3S8

Auditors

KMPG
Calgary, Alberta

Solicitors

Burstall Ward
Calgary, Alberta

Bankers

The Bank of Nova Scotia
Calgary, Alberta

Stock Exchange Listing

Alberta Stock Exchange
Symbol: RMA

Annual Meeting

The Annual General Meeting of the Shareholders will be held in the McDougall Room at The 400 Club, 710 – 4th Avenue SW, Calgary, Alberta on Thursday, March 12, 1998 at 3:30 pm (local time).

Abbreviations

mcf	thousand cubic feet
mmcf/d	million cubic feet per day
mcf/d	thousand cubic feet per day
bcf	billion cubic feet
mmcf	million cubic feet
bbl	barrel
boe	barrels of equivalent oil
mbbls	thousand barrels
boe/d	barrels of oil equivalent per day (10 mcf of natural gas to 1 barrel of oil)

Conversion Factor

Cubic metres of gas to cubic feet x 35.49373

Cubic metres of oil to barrels x 6.29287

PRODUCED BY GE-KO GRAPHICS
COVER PHOTO © ALAN DYER
PRINTED IN CANADA

RAMARRO Resources Inc.
Suite 1000, 808 – 4th Avenue SW
Calgary, Alberta T2P 3E8
PH 403-237-9393
FX 403-237-9388